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SUMMER 2014

Mergers and Acquisitions: *An opportunity?*

By Michael Sonego
Melbourne

The current business landscape presents an opportunity for many Australian businesses to proactively move forward. Whether on the buy or sell side, it is right to ask 'is this the time to transact'?

Growth opportunities

Within Australia the key determining factors of transaction activity appear at last to be aligned:

- banks are willing to lend
- vendor expectations are realistic, and
- an appropriate number of buyers are in the market resulting in the right balance between "no interest" and "too much interest" in a business.

This has provided buyers with the necessary opportunity and time to conduct due diligence and consider if the transaction is "right for me".

Over the past 12 months the ASX has continued to see successful Initial Public Offerings (IPOs) take place and there has been ongoing interest from foreign investors. For the middle market, activity will continue to be driven by the increasing numbers of IPOs getting away and being successful, along with mergers and acquisitions (M&A).

Providing confidence and positive sentiment to all business owners, the stable market has also aided Boards in undertaking acquisitions. It was not too long ago that many businesses were "damned if you did, damned if you didn't" when it came to undertaking acquisitions, which was not conducive to an active M&A environment. However, boardrooms are now providing the necessary impetus to act.

With a number of Free Trade Agreements (FTAs) being announced this year, and the strong market conditions, deals across the board are being made, led by the $25-$100 million transactions which have already experienced significant growth this year. Key sectors for deal activity have been the financial services, materials, industrial and consumer discretionary industries.

(continued on page 2)

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Mergers and Acquisitions: *A solution?* *(continued from page 1)*

The FTA recently announced with China, and the impending announcement of the Japanese FTA, is opening up doors, both inbound and outbound, for Australian businesses.

China, in particular, represents further deal potential for Australia's already active food sector, which is reinforced with the new policy announced in October 2014. This new policy states that with some minor exceptions, Chinese investment projects overseas no longer require approval from China's Ministry of Commerce. This will open the doors and opportunities for significant Chinese investment in Australia, particularly its public infrastructure and care sectors.

Over the past six months, in addition to the interest from Asia (including China), we have also seen interest from the UK and Canada. Each has a varied interest in Australia with Asia continuing to seek out skills and expertise, specifically in engineering, advanced manufacturing, food and agriculture.

Domestic interest has also increased over the past six to twelve months. While business confidence overall is much the same, we are certainly seeing that as vendor expectations have become more realistic, many businesses now see M&A as an important agenda item.

Exit opportunities

An acquisitive market also presents an opportunity to realise value for business owners. There has been much discussion about the challenge of business succession for baby boomers, and the need to exit longer held investments of private equity participants.

While putting your best foot forward helps achieve a maximum sale price, being well prepared is also critical to executing a transaction, especially when buyers have multiple options for "like" businesses. Satisfying legal, financial and commercial due diligence can be challenging, but more so for those businesses who failed to organise themselves or lacked planning and foresight for what is likely to be one of the single largest monetary transactions for any business owner.

The crux

There is likely to be greater transacting activity in 2015. This will enable businesses to step up, or ahead, of their competitors and facilitate the exit of business owners seeking a succession path on considerably improved financial terms than may have been achieved in the recent past.

Are merger or acquisition discussions on the agenda for your Board meetings and, if not, should they be? Is your acquisition strategy aligned with your corporate objectives and are you able to quickly and methodically assess if opportunities are what your business 'most' needs to grow and prosper? The topic is most likely on the agenda of your competitors or new entrants to your market.

For further information, or advice on transactions, call your local Pitcher Partners advisor.

Paying attention – part two

What is Bitcoin and how does it work?

By Assyl Haidar,
Melbourne

With a Senate enquiry already set for early 2015 to explore the regulatory and taxation issues and opportunities surrounding Bitcoin, Bitcoin is gaining traction as a viable currency option.

Meanwhile, in New York, submissions have just closed for the proposed Bitlicence framework, which would be the first of its kind if it goes ahead.

Amid this heightened awareness, Bitcoin (BTC) sits at the core of 'how businesses do business' in the near future, and it is in this context we bring our second article in this series on digital payment innovation and cryptocurrencies in particular. Here we take a closer look at the BTC ecosystem and how it works.

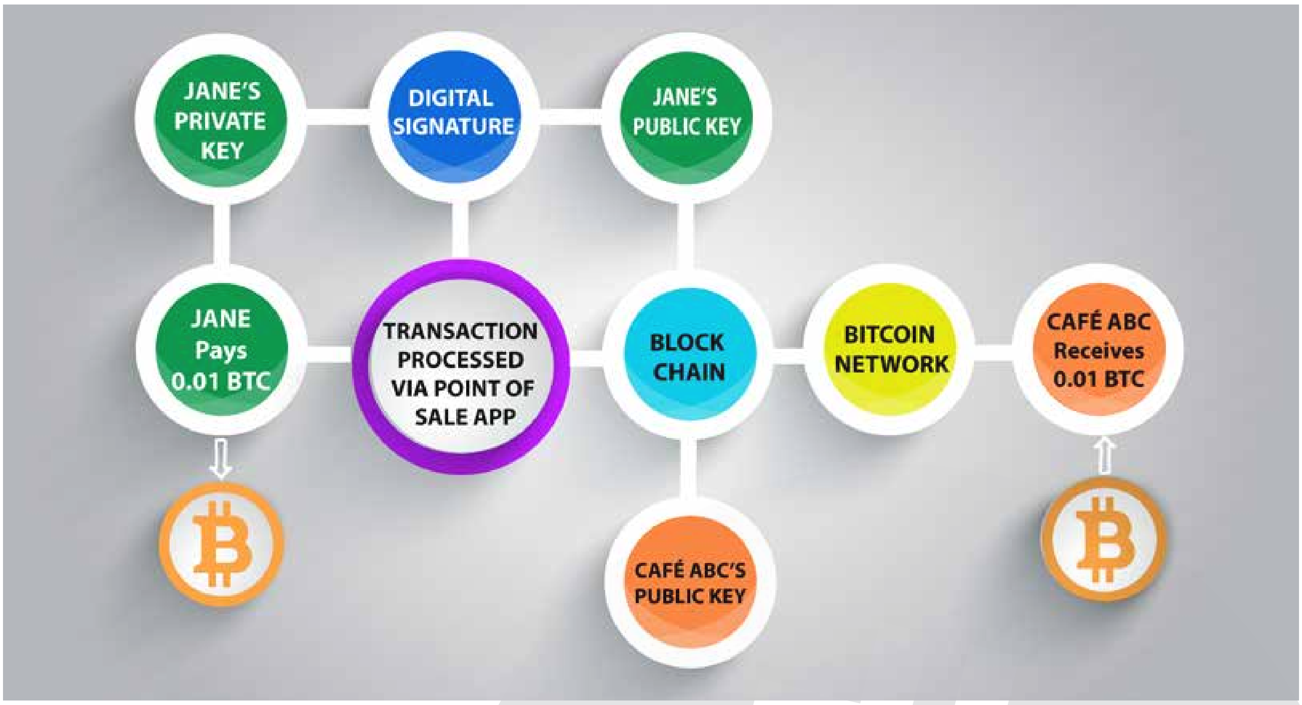
So how are BTC actually bought and used?

Let's imagine a hypothetical BTC exchange from 'Jane' to 'Café ABC' to pay for a cup of coffee.

- Jane has previously purchased 1 BTC from a local exchange using Australian dollars (AUD).
- Café ABC has chosen to accept BTC, so Jane uses an app on her smartphone to transfer 0.01 BTC from her digital wallet to pay for her latte.
- The transaction is verified over the BTC network along with other transactions in what is referred to as a 'block chain'.

The typical processing cost is 0.5%-1% to the merchant. By comparison, credit card processors usually charge between 2-3% and institutions charge an average of 8% to send a remittance internationally.

This diagram shows what the transaction looks like in more detail.



Why is the BTC Block Chain a big deal?

This is the key innovation of BTC used to publicly validate transactions. The block chain ensures that the 0.01 BTC which the café received from Jane could not have been spent elsewhere at the same time.

This reduces the risk and cost of fraud to the recipient and ultimately helps keep the transaction processing costs lower than credit card, EFT or cheque while maintaining the advantage of instant funds transfer. Until this breakthrough, the problem of double-spend and chargebacks stood unresolved for decades, driving up transaction costs.

"The block chain has introduced digital scarcity – for the first time, property can be transferred online with absolute confidence. Bitcoin has proven this can work for payments of all sizes".

– Chris Guzowski, Co-Founder of ABA Technology Pty Ltd (Bitcoin ATM provider)

How difficult is it to accept BTC?

Increasing adoption by local Point-Of-Sale (POS) providers, like Vend and Braintree, added to the fact that digital wallets can now easily be created, means Australian individuals and businesses can be set up within minutes to buy and send BTC.

This year, some Australian estate agents started accepting BTC to encourage foreign purchasers, while online retailers are offering discounts of up to 5% for payments made by BTC.

What are the key risks?

While transaction costs are low, the conversion rate of BTC remains volatile. Left unmanaged, efficiency gains can be quickly offset. It is therefore important to define a tolerance level to determine when to hold BTC or convert to local currency.

The second key risk in Australia is the recent ATO decision to treat BTC as a commodity pending a senate enquiry next year. This has created potential GST and CGT liabilities from October 1st, depending on the individual circumstances. Should legislation change to recognise BTC as a currency, these implications will change again. This makes it important to get tax advice to understand the specific implications that apply.

The bottom line

At this point in time, engaging in BTC requires a higher level of commitment to understand and apply than existing payment instruments. It is also not without risk. It is however one of the most active areas of investment and innovation in the internet today. Be assured that if your customers and competitors are not already looking at how they can benefit from the breakthrough of BTC and the block chain, they soon will be.

For any questions you have on BTC or how you can leverage digital innovation to grow and improve your business, contact Assyl Haidar at Pitcher Partners Melbourne on assyl.haidar@pitcher.com.au or via Twitter @assylh.

To gain a better understanding of the tax implications for you or your business arising from the use of BTC, contact your nearest Pitcher Partners tax advisor.

Succession Reset

– *A plan for prosperity*

By Dr Richard Shrapnel
Melbourne

"The business over the last decade has seen dramatic growth and improved profitability since the succession process was introduced."

– Australian survey respondent.

The results of the global Succession survey, undertaken by Pitcher Partners and Swinburne University have been released. Key findings are that the main barrier to effective succession is achieving the fair distribution of assets among family members; the principal outcome sought was continuity of the business; and the main trigger to commence a succession process was recommendation from a trusted advisor.

The survey confirms that it is a new era of succession, with significantly more uncertainty and complexity. The skills required of the incumbent generation to transition their business effectively are far greater than ever before. They must be able to make their businesses "succession-ready" being both ready for transition or market sale, as a whole or in easily flexible parts. The need to understand, and be able to impact, the drivers of capital value and competitiveness in a business are critical in this succession process. The goal of simply passing over the existing business to the next generation when the incumbent is ready to retire is no longer workable or viable. "Succession" really does commence the day you start your business.

Succession in this new era is not focused on just a realisation of wealth or transfer of a business. In the past, succession was often seen, in one sense, as being informal, with both generations of the family having the mutual expectation that the children would take over the business at some point in the future. However, in this new era of freedom, choice and individualisation for children, these expectations no longer exist. Children are encouraged to follow their own dreams without any overt pressure to join the business, creating a further level of uncertainty for the incumbent generation.

Continuity of the business, achieving family harmony and sustaining ongoing jobs for employees are key outcomes sought from the succession process. Building the financial capacity of the business to sustain a growing family and being able to deal with the complexities of today's business environment are key challenges. The role and importance of spouses in achieving these outcomes is now evident but not recognised by many.

An aspect commented on by many respondents was the importance of obtaining independent, professional advice from a trusted and reliable advisor – such as an accountant, spouse or lawyer. The survey shows that 73% of respondents who reported their succession process as orderly and straight forward with low levels of conflict rank accountants and spouses as their most trusted advisors.

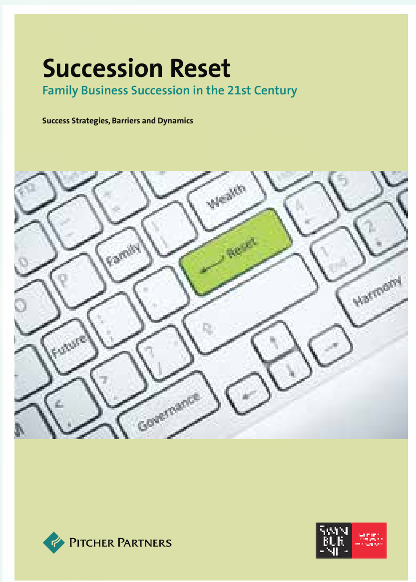
The risks and challenges of transitioning a business through succession are many and varied. It is critical that the family and business be aware of these risks and challenges and appropriately guided around these barriers so that they reap the rewards and capitalise on opportunities created through a proper succession strategy.

The first step to achieving this is appointing a succession advisor who will work with your existing taxation and legal advisors to achieve the best blend of succession expertise and knowledge of both your business and family.

A full copy of the research report, 'Succession Reset: Family Business Succession in the 21st Century', can be downloaded by visiting www.pitcher.com.au.

The research study was conducted over a four year period and comprised:

- A review of existing literature
- In-depth interviews with 77 people across 49 families
- Analysis of survey responses by some 2,650 people across 56 countries in nine languages



Big data
for any business

By Matthew Hodder,
Melbourne

Big data is the opportunity to learn from company data to make smarter decisions. As organisations slowly begin to grasp the concept we are finding big data is becoming as important to organisations as the internet.

Through the emergence of cloud technologies, social media and other technology platforms more and more data becomes available every day. Capturing and making sense of this information to enable better decision making is the essence of big data.

Until recently, big data was something only explored by large organisations, however this is becoming more readily available to smaller organisations, leading to faster and more intelligent decision making.

Big data has helped larger organisations, like Vodafone, reduce calls to their call centre by understanding customer behaviour on their website and correlating this to call centre statistics. By analysing this information and making a few simple changes to the website, they were able to greatly reduce the number of calls to their support team. In other examples, it has also helped insurance companies assess risk profiles and retailers predict sales, based on aerial photographs of car parks during key spending periods.

So how does big data help SME business?

Data for decision making can come from numerous locations. Let's look at an online clothing retailer as an example:

Website	Social Media	Email marketing system	Point of sale system
Display catalogues and then link through to web store. Gain an understanding of what people are interested in using Google Analytics i.e. is it core product range, promotional items, shipping details etc. Produce insights on effectiveness of a particular promotional range by tracking what percentage of website visitors clicked through from the promotional email and ultimately where these customers navigate to next on the site.	Promote through Facebook. As people begin to 'Like' the site, insights and trends begin to appear on the age group, sex and other key characteristics of fans. New product ranges or ideas can be promoted through social media platforms to then gauge feedback from clientele.	Data can be uploaded to a mail marketing program to send emails and track which customers are clicking on links in the emails.	Collect data on customers from sales for particular subsets of customers and send relevant promotional materials with a link to store's website e.g. females in Victoria.

Drawing on all these sources can aid in improved decision making well beyond just viewing a set of financials at the end of the month. Using big data we can understand our target market, ascertain how our market reacts to new products and ranges, understand the effectiveness of marketing campaigns and even push into new markets.

Accessing this information?

To do this from scratch can be timely and costly, involving sourcing an appropriate platform and searching for tools to collate and analyse the information. That said, there are a number of providers which offer one stop shops for compiling big data and enabling more indepth data analysis. For those looking to start simple, the latest version of Microsoft Excel offers powerful capabilities for tapping into a number of these sources.

Using purchased add-in tools, Xero accounting data can be imported, or the latest profile information from Google Analytics retrieved. Using Excel's own analysis tool Power Query, Facebook can be tapped into and used to analyse social media data.

Going one step further, a platform like Google's big data tools can be used to start predicting the future based on historical trends. By uploading cloud accounting data and integrating sales CRM information can be analysed and used to forecast the future.

Understanding what is possible and what tools are out there are key to improving in-house decision making and making the most of the new world. Before talking to a technology provider we recommend speaking to a business advisor to find out what will inform and enable better decision making, thus allowing big data to work for you.

Corporate foundation *for community support*

CLIENT PROFILE

By Ross Walker,
Brisbane

Consumer demand for organisations to have a positive impact on their communities continues to grow every day. But, for those companies that look beyond the bottom line impact, there are many other benefits to be gained: positive workplace producing happy employees; a sense of satisfaction that can only come from the gift of giving.

Here we highlight one of our clients who has embraced their CSR program for the benefit of the community, employees, stakeholders and the organisation itself.

Underpinning the values of the Cromwell Property Group management is a belief that they have a responsibility to build stronger communities, having supported dozens of charitable organisations, sporting clubs, schools and hospitals on an ad hoc basis since its inception in 1998.

This belief culminated with the establishment of the Cromwell Property Group Foundation in 2013, recognising the need to formalise their commitment to corporate responsibility.

Areas of particular focus for the Foundation include health, education, social welfare, community welfare and humanitarian causes, with the main objective of the Foundation being to directly contribute to medical research into, and the treatment and support of, those suffering with illnesses, conditions and diseases affecting the mature aged community.

So far the Foundation has made donations of $50,000 each, to Parkinson's NSW and Trigeminal Neuralgia Association (TNA) Australia.

Development of the Foundation has allowed Cromwell to identify ways to raise funds from other sources that can be directed back into supporting charities and communities that fit within the Foundation's framework. The establishment of the Foundation has also allowed Cromwell to work closely with its numerous stakeholders which has helped to achieve these outcomes and align the focus of the Foundation with that of their key stakeholders.

Supporting smaller charities provides a great deal of satisfaction to Cromwell staff and its stakeholders, as there is a real understanding that the contributions make a tangible difference to the lives of people in the community.

The investment philosophy of Cromwell in some ways also reflects the Foundation's vision as there is a general belief that investment outperformance can often be achieved through smaller, more nimble entities.

Pitcher Partners Brisbane has been able to directly experience the benefits generated by the Foundation, by both donating to the Foundation and having the Managing Partner volunteer his time as a Board member and active participant.

Investors beware

The hidden impacts of Basel III (part three)

By Adam Stanley
Melbourne

In this final instalment on Basel III, we consider its broader impacts on borrowings, shares and investment strategies.

The unknowns

There is some uncertainty about the effects of Basel III and the requirement to match lending to borrowing profiles. Approved Deposit-Taking Institutions (ADIs) may become more selective and risk averse in their lending criteria, and average loans periods may be shorter.

Small and medium sized businesses might find it difficult to obtain short-term or bridging finance, and when they do, it is possible they will pay significantly higher rates than today. In addition, deposits, bonds, personal guarantees or mortgages over existing properties may be required. These restrictions, along with a risk averse approach by the ADIs may mean that small business cannot move quickly when opportunities present.

These impacts will need to be monitored closely by an investor who is seeking exposure to, or holding, smaller cap or start up investments within their portfolio.

The requirement to match lending to borrowing profiles may also lead to a slowing of mortgage lending. The ADIs may increase the number of hurdles that need to be jumped before they lend – including increased deposits, higher guarantees or insurance requirements and greater focus on the ability of the mortgagee to meet payments (stress testing). Any reluctance to lend or tightening of minimum mortgage criteria may have a flow on effect for commercial property, residential property and the investment property markets – especially if other regulatory or economic factors come into play.

At best, the impact of Basel III on small business and the mortgage market remains uncertain.

Another unknown impact of Basel III relates to the share market. Where investors are only able to obtain wholesale term deposit rates, they may be forced to look for other sources of income. Good quality shares with a solid dividend history may be seen as an alternative for some investors. If this were to occur, there is a danger that some securities may become overvalued as prices rise. Investors may find that yields are compressed and that their capital is more at risk.

Investment strategies

With the potential for lower future returns and less liquidity on term deposits, investors may need to reconsider the appropriateness of existing investment strategies. Future fixed interest components may need to change in response to Basel III. Tolerances to risk may need to be revisited if portfolio structures change. Exposures into the property market may need to be more actively monitored. Liquidity requirements will need to be actively managed.

Investment advisors will have an extremely important role to play as they assist their clients through this transition. Advisors will also need to educate their clients on the impacts of Basel III and the risks and opportunities it presents. They will also need to work harder to develop stronger, more diverse relationships with product providers, including ADIs, so that investments can be proactively diversified and managed to achieve optimum outcomes.

What's New

For comments on this edition or if you wish to be removed from the Contact mailing list please email us at **editor@pitcher.com.au**. You can view Contact electronically at **www.pitcher.com.au/Contact-Newsletter**.

Congratulations Susan Barton

Lighthouse Foundation founder, Susan Barton AM, has been named among *Westpac's 100 Women of Influence*. Susan has been a guiding light in the not for profit sector for many years, and was recognised for her significant impact on the way children are cared for in out-of-home care across Australia.

Clean sweep for Pitcher Partners

Pitcher Partners won all three of its submitted categories at the **Thomson Reuters/Synergy Accounting Excellence Awards**.

This is the second year in a row the firm has won the Accounting Firm of the Year award, but it was a first for our Indirect Tax and general Tax teams. The awards recognise excellence across firms and individuals in the expertise of tax and accounting throughout Australia.

THOMSON REUTERS TAX & ACCOUNTING EXCELLENCE AWARDS 2014 — WINNER *Accounting Firm of the Year*

THOMSON REUTERS TAX & ACCOUNTING EXCELLENCE AWARDS 2014 — WINNER *Indirect Tax Team of the Year*

THOMSON REUTERS TAX & ACCOUNTING EXCELLENCE AWARDS 2014 — WINNER *Tax Team of the Year*

Pitcher Partners Adelaide was also a big winner at the recent **Hong Kong Australia Business Association SA Chapter Awards** – accepting the award for their contribution to Financial and Professional Services to Hong Kong SAR/China.

Seasons Greetings to all our clients

The partners and staff at Pitcher Partners would like to thank all our clients for their ongoing support throughout 2014. We wish you all well for the festive season and look forward to continuing to partner with you in 2015.

Melbourne	Sydney	Perth	Adelaide	Brisbane	Newcastle
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